

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 1502-01
BILL NO.: HB 649
SUBJECT: Education - Elementary and Secondary; Taxation and Revenue - Income and Property
TYPE: Original
DATE: March 27, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$175,060 to Unknown)	(\$16,000 to Unknown)	(\$16,000 to Unknown)
Total Estimated Net Effect on <u>All</u> State Funds *	(\$175,060 to UNKNOWN)	(\$16,000 to UNKNOWN)	(\$16,000 to UNKNOWN)

* Expenditures could exceed \$100,000.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government*	(Unknown) to \$22,000,000	(Unknown) to \$45,800,000	(Unknown) to \$47,600,000

*** This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation authorizes a school board, upon approval of the voters, to impose a supplemental income tax at a rate not to exceed 1% on all Missouri taxable income earned by its residents. The collection, administration, imposition and computation will be governed by the same statutes and regulations imposed on state income taxes pursuant to Chapter 143. The tax liability will be reported on the taxpayer's Missouri individual income tax return. Employers are required to withhold from wages for this supplemental tax by the rate imposed where each employee resides. The Department of Revenue will determine the additional revenue generated and distribute the revenue to each school district accordingly.

The DOR assumes the fiscal impact of the legislation is unknown. The number of FTEs required would depend on how many school districts (if any) would approve the supplemental income tax. Therefore, any FTE needed will be requested through the normal budget process based on the following information:

Personal Income Tax Bureau

One FTE would be needed for every 500,000 persons that would file a supplemental income tax return. The Bureau would have to obtain names of persons who live in the specific school district in order to enforce and administer the tax.

The Bureau anticipates a minimum of 5% impact to processing time. This will require (2) Temporary Clerk for 5 months for every 150,000 returns impacted by this legislation. Also (1) Tax Processing Tech I for five months for every additional 30,000 errors generated. Personal tax will also require (1) Tax Processing Tech 1 for every 3,000 pieces of correspondence received associated with this tax. The variation of surcharge rates could make this difficult in the development of the forms/instructions and system edits. Because not all school districts are authorized to collect, it may be difficult to properly enforce and/or edit, assuming DOR bases it on the school district number indicated by the taxpayer. This would make the surcharge a passive collection process. Based on the accounting and audit process, this could put DOR at risk in regards to collection and enforcement. The cost will depend on how it is handled.

An additional four pages will be added to the 2.6 million income tax booklets. The cost is estimated to be \$6 per thousand, for a total cost of \$16,000 per year.

Business Income Tax Bureau

The Business Tax Bureau anticipates an increase in withholding tax questions and reporting errors, and will need one Tax Processing Technician for every 2,000 accounts impacted by this

ASSUMPTION (continued)

legislation. The Customer Assistance Bureau will need one Tax Collection Technician for every 24,000 additional calls and one Tax Processing Technician for every 15,000 delinquent accounts created by this legislation

Information Technology

Income Tax – A new field will be added to the MO-1040, MO-1040A, MO-1040B and MO-1040% for reporting of the School district income Tax Surcharge Trust Fund. MINITS System changes, E-File; and PC Speedup will need to be modified. Depending on when the school district enacted this legislation the costs would be associated with that Fiscal Year. If the Department is to enhance the programs in anticipation of a school district imposing, the costs would be immediate. It is estimated that 3,114 hours of overtime programming are required at a cost of \$103,883.

Withholding Tax – The withholding tax system will need major modifications for registration of the employers for a specific school district and for the allowance and tracking of this information on the withholding tax system. It is estimated it will take 4 programmers 2 months to handle the change to allow the filers to submit the withholding when reporting the state withholding. These programming changes are estimated to cost \$46,170, with State Data Center implementation costs estimated at \$9,007.

Officials from the **Department of Elementary and Secondary Education (DES)** state this proposal authorizes a school board to levy an income tax, not to exceed on percent, on the Missouri taxable income of the school district's residents. Before the school board can impose these taxes, the income tax issue must be approved by a majority vote of the voters in the district.

DES assumes for each school district with an approved income tax, DES will compute an equivalent property tax. Based on the income tax revenue received by the school district, DES will determine how many pennies of property tax it would have taken to generate that same amount of revenue. That equivalent property tax will then be added to the operating levy for school purposes used in the foundation formula computation for the district(s).

DES assumes that due to the inclusion in the foundation formula of the equivalent property tax, there is an increased cost to the state aid formula because an increased tax rate entitles the district to increased funding. However, the cost is unknown because DES:

- a) does not know which districts will pass an income tax or the amount of such a tax;
- b) cannot determine the amount of income tax revenue received by the affected districts; and
- c) cannot determine the equivalent property tax to use in the formula.

In a similar proposal, HB 131 (2001), officials from the **Office of Administration - Budget and ASSUMPTION** (continued)

Planning (BAP) stated the anticipated revenues would be unknown because of the uncertainty of

which school districts would be able to pass such measures in an election. They also stated the estimated revenue from Individual Income Tax for Missouri for FY02 is roughly \$4.4 billion, which would translate to \$223 million in revenue statewide for the school districts if all the school districts in the state passed a 5 percent income tax surcharge measure.

Officials from the Office of the **Secretary of State (SOS)** and the **State Tax Commission (TAX)** assume this proposal would not fiscally impact their agencies.

Oversight assumes this proposal is permissive and would require voter approval before any positive fiscal impact would be realized by the state. Oversight presented the fiscal impact in a range of no voters passing such measures to all school districts in the state passing the income tax. Oversight assumed a 4 percent growth rate. Using BAP's information, Oversight assumes revenue of \$44 million statewide for school districts if all districts in the state pass the one percent income tax supplement. Oversight assumed the Income Tax, at the earliest, would be passed by the voters in October, 2001 and therefore, would not be effective until January 1, 2002, at which time employers would withhold from earnings and remit to the state. Oversight also assumes the DOR would complete the programming changes related to the Income Tax in FY02.

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(6 Mo.)		
GENERAL REVENUE FUND			
<u>Income</u> - Department of Revenue	\$0 to	\$0 to	\$0 to
Income tax supplement	\$22,000,000	\$45,800,000	\$47,600,000
<u>Transfer</u> - to local school district(s)	(\$0 to	(\$0 to	(\$0 to
Income tax supplement _____	\$22,000,000)	\$45,800,000)	\$47,600,000)
<u>Costs</u> - Department of Revenue			
Costs associated with collecting and administering tax supplement	(\$175,060 to <u>Unknown</u>)	(\$16,000 to <u>Unknown</u>)	(\$16,000 to <u>Unknown</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$175,060 to <u>Unknown</u>)	(\$16,000 to <u>Unknown</u>)	(\$16,000 to <u>Unknown</u>)

FISCAL IMPACT - Local Government

FY 2002

FY 2003

FY 2004

(6 Mo.)

LOCAL SCHOOL DISTRICTS

Costs - Election Costs

(Unknown)

(Unknown)

(Unknown)

Revenue - Income Tax Supplement

\$0 to

\$0 to

\$0 to

\$22,000,000

\$45,800,000

\$47,600,000

**ESTIMATED NET EFFECT TO
 LOCAL SCHOOL DISTRICTS***

(Unknown) to (Unknown) to (Unknown) to

\$22,000,000

\$45,800,000

\$47,600,000

*Note: Voter approval at local elections of the Income Tax Supplement measures must occur to realize the impact. For fiscal note purposes, Oversight presented the fiscal impact in a range of no school districts approving the measures to all school districts approving the measures at their legal extent.

FISCAL IMPACT - Small Business

Small businesses would be fiscally impacted to the extent they must keep track of and pay an additional income tax and withhold an increased withholding tax for employees.

DESCRIPTION

This bill creates an option for school districts to submit to their voters a supplemental income tax of up to 1% of Missouri taxable income to reduce reliance on property taxes for school funding. The supplemental income tax would become effective January 1 following its approval. The statutes governing state income tax would apply, and employers would withhold the supplemental income tax as prescribed by existing statute. The Department of Revenue would adjust tax materials as necessary to administer the tax, would promulgate necessary rules, and would distribute to the school district the revenue generated from residents of the district. For each district that adopts a supplemental income tax, the Department of Elementary and Secondary Education would calculate a property tax rate that is the equivalent of the revenue generated by the supplemental income tax and include the equivalent rate as an addition to the district's operating levy for the purposes of calculating state aid.

DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not

require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Elementary and Secondary Education
Office of Administration
 Budget and Planning
Secretary of State
State Tax Commission

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "T".

Jeanne Jarrett, CPA
Director

March 27, 2001